

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

ADOBE SYSTEMS INCORPORATED,

Plaintiff,

v.

HOOPS ENTERPRISE LLC; and ANTHONY
KORNRUMPF,

Defendants.

No. C 10-2769 CW

ORDER GRANTING IN
PART PLAINTIFF'S
MOTION FOR A
PRELIMINARY
INJUNCTION
(Docket No. 109)

AND ALL RELATED CLAIMS

Plaintiff Adobe Systems Incorporated seeks a preliminary injunction preventing Defendants Anthony Kornrumpf and Hoops Enterprise, LLC from engaging in any business whatsoever with unauthorized Adobe products pending the outcome of this litigation. Defendants oppose the motion. Having considered the papers filed by the parties and oral arguments, the Court GRANTS Adobe's motion in part.

BACKGROUND

Adobe initiated this copyright and trademark infringement lawsuit on June 24, 2010, alleging that Defendants sell Adobe software through the use of the Internet auction site eBay and the website www.lookoutdeals.com, among other services, and that Adobe has not licensed Defendants to make or distribute copies of its software. Adobe also alleges that Defendants use, without a

1 license, images similar or identical to Adobe trademarks as part
2 of their online business. Adobe seeks relief pursuant to the
3 Copyright Act, 17 U.S.C. §§ 101, et seq., and the Lanham Act, 15
4 U.S.C. §§ 1501, et seq.

5 Adobe states that it distributes software for which it holds
6 the copyright pursuant to restricted licensing agreements and does
7 not transfer title to the software at any time. Coombs Decl. ¶ 4,
8 Ex. C (Stickle Decl.) ¶ 5. The licensing agreements restrict the
9 use, location of distribution, transfer and sometimes who is
10 qualified to obtain the product. Id. One type of restricted
11 software that Adobe distributes is Original Equipment Manufacturer
12 (OEM) products that are distributed in a bundle with approved
13 hardware components. Id. at ¶ 7. The bundles are
14 product-specific and Adobe's product may not be unbundled and sold
15 separately or re-bundled with products not previously approved by
16 Adobe. Id.

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19 In conjunction with Defendants' prior motion for a
20 preliminary injunction, Defendants proffered evidence of a
21 contract Adobe uses with hardware manufacturers for the
22 distribution of its software. See Boyce Decl. in Supp. of Defs.'
23 Mot. for Prelim. Inj., Docket No. 69, ¶ 15. The contract states
24 that Adobe provides only licenses to the manufacturer and that the
25 manufacturer "shall not at any stage have title to the physical
26 property or the Intellectual Property in the Software Products."
27 Boyce Decl. in Supp. of Defs.' Mot. for Prelim. Inj., Ex. E
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¶ 12.3. While Defendants state that discovery has revealed that the "actual contracts executed by Adobe do not match the 'template' previously provided," Opp. at 12, Defendants do not offer copies of these contracts, describe how they differ from the contract previously offered into evidence, or argue that the actual contracts differ from the restrictive terms described above in the Stickle declaration.

Defendants purchase OEM versions of software that have been unbundled from the hardware with which they were originally packaged. Coombs Decl. ¶¶ 2, 5, Ex. A ¶ 2, Ex. D (Kornrumpf Depo. Tr.) 80:24-82:15; Kornrumpf Decl. ¶¶ 2, 5. While Defendants sell other software products as well, the majority of their business is based on Adobe products. Kornrumpf Decl. ¶ 13. Until earlier this year, Defendants resold the OEM software through eBay. Id. at ¶¶ 8, 13. The resold software was sometimes sold by itself and was sometimes packaged with items such as a piece of photo paper, a blank DVD, or a media card reader, which Adobe had not authorized for bundling. Coombs Decl. ¶ 3, Ex. B (Fernandez Decl.) ¶¶ 5-11; Stickle Decl. ¶¶ 9, 10; Kornrumpf Depo. Tr. 44:2-24. Adobe, through an investigator, made several test purchases of Adobe OEM software from Defendants through their eBay monikers. Fernandez Decl. ¶¶ 5-11; Stickle Decl. ¶¶ 9, 10; Boyce Decl. ¶ 10, Ex. 3.

In October and November 2010 and April 2011, Adobe, through the Software and Information Industry Association (SIIA), sent

1 take-down notices to eBay regarding Defendants' sale of Adobe OEM
2 products through that website. Kornrumpf Decl. ¶¶ 6, 13; Wang
3 Decl. in Support of Pl.'s Opp. to Defs.' Mot. for a Prelim. Inj.,
4 Docket No. 75, ¶ 3, Ex. M. After receiving the notices this year,
5 eBay ceased allowing Defendants to sell Adobe products through its
6 website, until and unless Defendants provide eBay with a court
7 order or other resolution of the instant lawsuit allowing
8 Defendants to resume these sales. Kornrumpf Decl. ¶ 13.

10 On July 20, 2011, Adobe's investigator purchased an OEM copy
11 of Adobe Acrobat 8 Standard from Defendants' website. Boyce Decl.
12 ¶ 10, Ex. 3. During its deposition of Defendants on August 16 and
13 18, 2011, Adobe learned that Defendants have also continued to
14 sell Adobe OEM products through other means, including to other
15 suppliers and directly to other past customers, and that they
16 intend to continue to do so. Kornrumpf Depo. Tr. 21:16-23:11;
17 103:13-23.

19 On November 2, 2011, Adobe filed the instant motion seeking a
20 preliminary injunction prohibiting Defendants from engaging in any
21 business whatsoever with any unauthorized Adobe products, pending
22 the outcome of this litigation.

23 LEGAL STANDARD

24 "A plaintiff seeking a preliminary injunction must establish
25 that he is likely to succeed on the merits, that he is likely to
26 suffer irreparable harm in the absence of preliminary relief, that
27 the balance of equities tips in his favor, and that an injunction
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1 is in the public interest." Winter v. Natural Res. Def. Council,
2 Inc., 555 U.S. 7, 20 (2008). Alternatively, "a preliminary
3 injunction could issue where the likelihood of success is such
4 that serious questions going to the merits were raised and the
5 balance of hardships tips sharply in plaintiff's favor," so long
6 as the plaintiff demonstrates irreparable harm and shows that the
7 injunction is in the public interest. Alliance for the Wild
8 Rockies v. Cottrell, 632 F.3d 1127, 1131 (9th Cir. 2011) (citation
9 and internal quotation and editing marks omitted).

11 A court employs a sliding scale when considering a
12 plaintiff's showing as to the likelihood of success on the merits
13 and the likelihood of irreparable harm. Id. "Under this
14 approach, the elements of the preliminary injunction test are
15 balanced, so that a stronger showing of one element may offset a
16 weaker showing of another." Id.

18 DISCUSSION

19 Defendants argue that Adobe has not established any of the
20 relevant factors under Winter and that their proposed injunction
21 is overly broad.

22 I. Likelihood of Success on the Merits

23 Adobe argues that it is likely to succeed on the merits,
24 because it licenses, rather than sells, its software and retains
25 the right to distribution of the software, and Defendant sells
26 Adobe's OEM software in violation of Adobe's licensing
27 restrictions on these products.
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1 "Copyright is a federal law protection provided to the
2 authors of 'original works of authorship,' including software
3 programs." Vernor v. Autodesk, Inc., 621 F.3d 1102, 1106 (9th
4 Cir. 2010) (citing 17 U.S.C. §§ 101-103). "The Copyright Act
5 confers several exclusive rights on copyright owners, including
6 the exclusive rights . . . to distribute their works by sale or
7 rental." Id. at 1106-07 (citing 17 U.S.C. § 106(3)). Copyright
8 infringement occurs whenever someone "violates any of the
9 exclusive rights of the copyright owner," including the exclusive
10 distribution right. 17 U.S.C. §§ 106(3), 501. "The exclusive
11 distribution right is limited by the first sale doctrine, an
12 affirmative defense to copyright infringement that allows owners
13 of copies of copyrighted works to resell those copies." Vernor,
14 621 F.3d at 1107. However, this affirmative defense is
15 unavailable to "those who are only licensed to use their copies of
16 copyrighted works." Id. "[A] software user is a licensee rather
17 than an owner of a copy where the copyright owner (1) specifies
18 that the user is granted a license; (2) significantly restricts
19 the user's ability to transfer the software; and (3) imposes
20 notable use restrictions." Id. at 1111.

23 Defendants do not dispute the evidence that they distribute
24 Adobe software in a way that does not comply with the restrictions
25 that Adobe has placed on distribution. Instead, Defendants'
26 opposition relies entirely on their challenge to Adobe's argument
27 that the first sale doctrine is not applicable to this case.
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1 However, there is substantial evidence before the Court, which
2 Defendants have not submitted any evidence to rebut, that Adobe's
3 distribution agreements meet the Vernor requirements, namely that
4 they specify that the user is granted a license, they
5 significantly restrict the user's ability to transfer the
6 software, and they impose notable use restrictions.

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8 Accordingly, the Court finds that Adobe has made a strong
9 showing that it is likely to prevail on its copyright infringement
10 claim.

11 II. Irreparable Harm

12 Adobe argues that, without an injunction, it will suffer
13 irreparable harm, because of the placing of unauthorized goods
14 into the stream of commerce, damage to customer confidence that
15 Adobe will provide them with a high quality, genuine product,
16 backed by quality customer service, interference with Adobe's
17 ability to ensure that their products are only bundled with high
18 quality goods and loss of the unique personality and allure of its
19 products.
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21 Defendants' primary argument against a finding of
22 irreparable harm is the amount of time that it took for Adobe to
23 file for a preliminary injunction. Defendants argue that Adobe
24 knew that Defendants continued to sell these products throughout
25 the pendency of this action and cannot now credibly argue that it
26 is at risk of irreparable harm.
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1 The evidence in the record does not support Defendants'
2 argument. For most of the time since the lawsuit was filed,
3 Defendants offer proof only that Adobe knew that Defendants were
4 continuing to sell the products on eBay, not through other
5 channels. That Adobe knew that Defendants were selling their
6 products on eBay does not undercut a finding of irreparable harm,
7 because Adobe took steps to stop Defendants from selling their
8 products on eBay by taking action directly with eBay. There is
9 evidence in the record that Adobe learned of the continued sales
10 through means other than eBay in two ways: through its
11 investigator's purchase of an OEM copy of Adobe Acrobat 8 Standard
12 from Defendants' website on July 20, 2011; and through a
13 deposition that took place on August 16 and 18, 2011. See
14 Kornrumpf Depo. Tr. 1; Boyce Decl. ¶ 10, Ex. 3. Adobe filed this
15 motion on November 2, 2011. Thus, Adobe filed this motion about
16 two and a half to three and a half months after it found out that
17 Defendants were continuing to sell its products through means
18 other than eBay. However, while this relatively short delay
19 weighs slightly against a finding of irreparable harm, it is not
20 determinative when compared to the harm of which Adobe complains.

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23 Defendants also argue that the harm that Adobe complains of
24 is "negligible at best." Opp. at 10. Defendants state that Adobe
25 has already been paid for the software by the OEM manufacturer and
26 that Defendants are selling the unaltered and authentic OEM
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1 software in "sleeve only packaging," the same condition that Adobe
2 allows manufacturers to sell the software to users. Id. at 10-11.

3 However, Defendants' argument fails to recognize the
4 differences between the Adobe's OEM software and retail software,
5 which harms their customers' experiences and Adobe's reputation.
6 Adobe testifies that its OEM software generally does not come with
7 the same level of customer service as its retail software and that
8 unauthorized sales harm its relationship and reputation with
9 consumers when Adobe is unable to provide support to consumers who
10 did not know they were receiving restricted software, which Adobe
11 testifies has happened many times. Stickle Decl. ¶¶ 7, 12.
12 Defendants' sale of unbundled OEM products also interferes with
13 Adobe's attempts to control distribution of software and offer
14 discounted licenses to those who fall into a particular category,
15 such as those who have purchased a particular piece of hardware.
16 Id. at ¶¶ 6-7.

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18 The harm to Adobe's reputation, goodwill and ability to
19 control the distribution of its software is sufficient to
20 establish irreparable harm. See, e.g., Apple Inc. v. Psystar
21 Corp., 673 F. Supp. 2d 943, 949, 949 n.2 (N.D. Cal. 2009), aff'd,
22 658 F.3d 1150 (9th Cir. 2011) (citing Rent-a-Center, Inc. v.
23 Canyon Television & Appliance, 944 F.2d 597, 603 (9th Cir. 1991)).
24 Further, the fact that the harm that Adobe will suffer is
25 difficult to quantify also supports a finding of irreparable harm.
26 Rent-a-Center, 944 F.2d at 603 (upholding district court's finding
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1 that damages that are "difficult to value . . . thus constituted
2 possible irreparable harm").

3 III. Balance of Equities

4 Defendants argue that, if the requested injunction is
5 granted, their business "would be effectively shut down," and that
6 thus the balance of hardships weighs in their favor. However,
7 Defendants' sworn statements do not actually support a finding
8 that they will no longer be able to conduct any business
9 whatsoever if the proposed preliminary injunction were issued.
10 Further, being prevented from selling software that one is not
11 authorized to sell does not constitute a hardship. Accordingly,
12 the Court finds that, in light of the irreparable harm to Adobe
13 described above, the balance of equities favors Adobe.

15 IV. The Public Interest

16 Both parties agree that the relevant question for this factor
17 is whether the proposed injunction will disserve the public
18 interest, not whether it will promote the public interest. Opp.
19 at 4; Reply, at 7. Defendants make no argument that the public
20 interest will be disserved by the proposed injunction, and instead
21 seek to refute Adobe's argument that the public interest will be
22 served by prohibiting deceptive practices that mislead customers.
23 Defendants repeat their earlier argument that customers are not
24 misled by their sales activity, because they sell genuine Adobe
25 products. However, Defendants again do not address the previously
26 described evidence of the differences between Adobe's OEM and
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1 retail products. Accordingly, the Court finds that a preliminary
2 injunction is in the public interest.

3 V. Breadth of the Requested Preliminary Injunction

4 The Court, however, is persuaded by Defendants' argument that
5 the proposed preliminary injunction is overly broad, because it
6 prohibits them from "engaging in any business whatsoever with any
7 unauthorized Adobe products" without specifying what the
8 prohibited business practices and products are. Accordingly, the
9 Court limits the preliminary injunction to prohibit Defendants
10 from "selling, offering for sale, distributing, or transferring
11 any Adobe Original Equipment Manufacturer (OEM) product separately
12 from the hardware with which it was licensed to be distributed."

14 CONCLUSION

15 For the reasons set forth above, Adobe's motion for a
16 preliminary injunction is GRANTED in part (Docket No. 109). A
17 preliminary injunction will be entered as a separate document.
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19 IT IS SO ORDERED.

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21 Dated: 12/16/2011

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CLAUDIA WILKEN
United States District Judge